

# NATIONAL REVIEW

## Undoing the China Shock

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American manufacturing doesn't offer nearly as many jobs as it once did, and there are serious downsides to this fact.

In 1970 about 18 million Americans worked in manufacturing: twenty-five percent of all nonfarm employment in the country. That number dropped just a little over the next 30 years, to about 17 million — but the population grew and women flooded into the work force during that time as well, so the share of nonfarm workers in manufacturing was below 15 percent at the turn of the century.

Things only got worse from there, owing largely to an increase in trade with China, which joined the World Trade Organization, was granted “permanent normal trade relations,” and shifted toward a more free-market economy domestically. U.S. manufacturing employment fell to about 14 million in just five years; after the 2008 recession it bottomed out below 11.5 million. It's now recovered to about 13 million, still less than 10 percent of nonfarm employment.

This was undeniably bad news for the individuals who relied on these jobs, and a series of studies by the economist David Autor and several co-authors has found that the affected communities did not recover as quickly as many had hoped. These studies also suggest that there are unique problems that go with losing *this kind* of job — i.e., decent-paying work for low-skilled men. In areas hit by the “China shock,” declining employment prospects for these men may have resulted in lower marriage rates and higher rates of out-of-wedlock childbearing and child poverty. Other research connects the shock to higher suicide rates as well.

One might reasonably look at this state of affairs and wish that the U.S. had opened to China more slowly or not at all. A growing number of populists on the right do just that, and add that it's not too late to change course. But like most political issues, trade policy is beset by uncertainty and complicated trade-offs, and upon a closer look at the evidence, the case for cutting back on trade with China becomes far less seductive.

Even if Autor is correct about the damage done to areas with high manufacturing employment — which is disputed — there is much else to consider. Nearly two decades have passed since the shock's onset, during which time the economy has adjusted in countless ways and millions of people have come to rely on expanded trade. Indeed, beyond bringing down prices for American consumers, the shock may have created more American jobs than it destroyed. Some research also suggests that while the number of manufacturing jobs may have declined, manufacturing workers are still better off in many ways than comparable workers in other sectors.

This presents a problem for today's trade warriors, even assuming it's still possible to reverse the China shock. To truly justify such a move, they would essentially need to argue that manufacturing workers are more important than everyone else: that we should not only raise consumer prices by billions of dollars, but also destroy the jobs of other Americans, to bring manufacturing back.

This isn't to say that there are no improvements we could make to our trade and industrial policy, especially when it comes to challenging China's various unfair practices, or that we shouldn't do more to help low-skilled workers in general. It is to say that opening to China was not a "mistake" foisted upon the working class by nefarious elites, and that going back to the way

things were may not be all that attractive an option.

The consensus among economists has long been that trade is good for the economy as a whole. When consumers are free to buy the cheapest and best product they can find, even if it's from another country, each nation specializes in what it's good at — its "comparative advantage." Companies exposed to new competition lose out, but the benefits outweigh the drawbacks, at least when they're measured in pure dollar amounts.

The benefits of trade are most obvious in consumer prices; even Tucker Carlson, in a recent populist monologue that went viral (see Ramesh Ponnuru's piece in this issue), spoke of "cheaper iPhones" and "more Amazon deliveries of plastic garbage from China." The exact numbers vary by study, but the research suggests that consumers save hundreds of billions of dollars per year thanks to expanded trade with China — perhaps \$1,000 for every person in the country, and six-figure sums for each manufacturing job lost. Carlson may be right that cheap junk from China doesn't make us happy in any fundamental way, but it would put serious strain on family budgets if all that junk got expensive again.

Perhaps the many should give up lower prices to protect the few from the even worse damage of losing good jobs. But consumers aren't the only people who buy cheap junk from China; American companies do as well, and many were able to expand when their inputs became less expensive. Late last year a study reported "robust evidence that the total impact of trading with China is a positive boost to local employment and real wages," primarily thanks to "employment stimulation outside the manufacturing sector." A 2017 study pointed out that U.S. exports have been expanding alongside Chinese imports, in part thanks to cheaper inputs, and found that the job gains from new exports more than canceled out the damage done by the imports. Yet another study identified adjustments *within* firms as well; companies pulled out of markets with intense import competition but expanded employment on balance via growth in areas where they had an advantage.

The possibility that trade with China created more jobs than it destroyed should give the populists pause. If true, it means that if we wanted to fix the "mistake" of opening our markets to China, we'd need to throw other people out of work to make room for manufacturing jobs. To reverse a previous disruption to employment for millions of people, we'd need to create a new, possibly bigger one.

Of course, these findings are social science, not gospel. But then again so are the more pessimistic results from Autor's research. A recent paper by the Gallup economist Jonathan

Rothwell, for example, made changes to Autor's methodology and found "no evidence that import competition results in broad harm to local economies."

Rothwell also provided a number of simple comparisons between manufacturing workers and others that should inform the debate over trade. For example, to this day manufacturing workers make more money than similarly educated workers in other sectors; this "wage premium" fell a bit at the beginning of the century, partially rebounded, and now stands at nearly 20 percent. "Despite a large net job loss in manufacturing over the period of import competition," Rothwell also found, "it seems that manufacturing workers benefit from a low long-term risk of being laid off and an ability to transition to other industries and sectors when they are laid off."

One might spin these results as showing that manufacturing jobs are good and worth preserving, of course. But they also raise the question of why we'd treat the problems facing this group of workers as unusually severe when they manifestly are not.

The upshot here is not that there's nothing to be done. Even resolute free-traders have highlighted problems with China's behavior over the last two decades. Late last year, three scholars at the libertarian Cato Institute released a paper highlighting ways that the WTO's dispute-resolution processes can be used to discipline China, especially in the areas of "general intellectual property protection and enforcement; trade secrets protection; forced technology transfer; and subsidies." Some of these problems raise national-security issues in addition to economic ones, and the U.S. should not hesitate to address them forcefully, whether through the WTO or through other mechanisms. (It is worth noting, as well, that WTO dispute resolution exists as an option precisely *because* China was allowed into the organization — and that the U.S. killed the Trans-Pacific Partnership, an agreement that did not include China and had been designed in part to counteract China's power.)

In addition, there is an entire body of conservative thought, much of it originating in these pages, about creating an agenda to address the problems facing the working class — whether those problems stem from trade, from domestic competition, from automation, or from a half century's worth of dramatic cultural upheaval. Perhaps most pressingly, the welfare state needs an overhaul: Unemployment programs should do more to help people move to where the jobs are; the disability system should do more to encourage work; wage subsidies such as the earned-income tax credit should do more to help low-skilled men (who today are largely passed over in favor of single mothers); safety-net programs in general should encourage marriage rather than penalize it. Meanwhile, high-cost cities need to stop keeping the poor from better jobs through absurd zoning policies; school choice deserves an aggressive push in poor and working-class communities; and occupational-licensing rules should face withering scrutiny.

Such policies cannot bring back union manufacturing jobs and "family wages" for low-skilled men, but they can make life better for people at the bottom of the income ladder. That's more than can be said for trade restrictions.